

Testimony of Ambassador Otto J. Reich
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Mr. Chairman and distinguished members, I appreciate the opportunity to appear at this hearing on a topic which affects the national security and the welfare of our hemisphere, but which has not received the attention it deserves: transparency and the rule of law, or the absence of them, which is too prevalent in our hemisphere: corruption. While the US has instruments to combat the scourge of corruption, I believe they could be implemented more enthusiastically than at present. Corruption is the number 1 obstacle to socio-economic development in the world. The World Bank, with far greater perspective than me, has come to that conclusion.

More importantly, corruption has been recognized by the President of the United States as a threat to democracy in the world and to the very security of our nation. In my career as a US Ambassador, as Assistant Administrator of USAID, as Assistant Secretary of State, as the President's Special Envoy for Western Hemisphere Affairs, as a US Army officer and as a private businessman active in this hemisphere for several decades, I have witnessed how corruption robs citizens of their hopes and their confidence in the future.

Corruption not only undermines development directly by diverting precious resources from the population, but perhaps more perniciously it undermines the confidence of all citizens in the institutions of a democracy. It is a direct brake on growth. For example, what incentive is there to invest in a country where a judge can be bribed to settle a multi-million dollar commercial dispute in favor of the highest bidder? At a lower level of society, why should a poor peasant borrow money to plant new crops if a powerful landowner is going to cheat him of his labor and get away with it because he has the local police or military chief in his pocket?

Corruption is not limited to developing nations, but it is more prevalent there because of the lack of the rule of law and of the institutions of a successful civil society. Poor countries do not have sufficient resources for effective law enforcement, do not have sufficient media and other independent watchdog institutions to fight against the ever-present predatory official or private sector pirate.

But it is not only lack of resources that enables corruption: it is the existence of a mindset that Latin Americans call impunity: the attitude that one can get away with violating the law by virtue of a relatively superior economic, political or social position.

One aspect of corruption which has not received sufficient attention is that corruption is lethal. Corruption kills -- directly and indirectly. For example, why obey the law, or else pay a fine of hundreds of dollars for dumping toxic waste in a river when the local governmental official will look the other way for a simple bribe? So what if the child playing in the water, or the mother washing clothes downstream, dies of cancer as a result?

Corruption makes organized crime more efficient and deadly. To the extent law enforcement officials are dishonest and do not do their job, organized crime is able to spread its tentacles into new ventures and affect more people. Corrupt officials working with, or enabling, organized crime are responsible for the large number of police, judges, journalists and investigators who have been murdered while performing their duties.

Crimes of violence are not the only evidence of the corroding effect of bribery. In many nations, children and adults are literally dying of hunger or disease because corrupt officials have stolen the nation's resources which should have been used to spur the economic development which would have fed, housed and educated those citizens. Furthermore, corruption can and is being used to undermine the institutions of democracy and frustrate the popular will.

Today in Latin America we are witnessing a renewal of this insidious aspect of corruption: populist demagogues rail against

corruption in order to reach power, whether by election or by force. Then, when they are in control of the government, they break all previous records of corruption and, secure in their impunity, they change the laws and even the Constitution in order to remain in power indefinitely. Fidel Castro did this in Cuba. He participated in a popular revolt against the corrupt and violent dictator Batista only to become a much more brutal ruler who has held power by force for 46 years and in the process defrauded the Cubans by destroying the economy and the dignity of what once was one of the most socially and economically progressive countries in the hemisphere.

The latest but by no means the only example of this abuse of power is Hugo Chavez in Venezuela. When I was Ambassador to Venezuela in the 1980's, that country had a sad reputation as one where bribes were necessary to get business done. But I follow events in Venezuela closely, and it is my considered opinion that corruption today in Venezuela is worse than ever. The nation's wealth is being plundered by the Chavez government. The oil company, PDVSA, the source of most of the country's wealth, has been staffed with unskilled managers whose only qualification is loyalty to the Chavez regime, and who are robbing it blind, giving sweetheart contracts to their friends and comrades. The result is that oil production is down by about one million barrels per day, or 30% less than the levels of five years ago, while Chavista loyalists and military officers have become multi-millionaires by having access to oil export contracts or partaking in all sorts of fraudulent schemes.

The magnitude of the malfeasance is such that PDVSA, which is the source of approximately 50% of that country's tax revenues, and 12% of our country's imported oil, has failed to present audited financial statements since March of 2002. This unprecedented level of mismanagement and corruption has without a doubt contributed to the amazing "revolutionary" feat of increasing the number of Venezuelans living in poverty by 2 million and adding 1 million people to the ranks of the unemployed. All this while the price of a barrel of oil is at historic highs.

Mr. Chairman, there is nothing more critical or rapid we can do to accelerate global development than try to stem the tide of corruption. That is why when I joined the Bush Administration in 2001, I was so pleased to be working for a president who had made the fight against corruption a top priority. President Bush has revolutionized our foreign assistance programs by creating the Millennium Challenge Fund, which requires, among other criteria, that governments implement anti-corruption policies in order to qualify for what will be a \$5 Billion account when fully funded by the Congress.

With the possible exception of humanitarian assistance, I hope all US aid in the future will have the three political, economic and social requirements of the MCA; that is, that recipient countries be democracies which promote human rights; that they follow economic policies based on individual initiative and free markets; and finally that they invest in their populations' future through efficient programs in health and education.

Following President Bush's lead, the State Department's Bureau of Western Hemisphere Affairs, which I headed, promoted the revocation of visas for corrupt individuals as one of the principal instruments of development and rule of law strategy starting in 2002. The president made this a global initiative on January 12 of 2004, when he signed a proclamation suspending entry into the US of persons engaged in or benefiting from corruption. While brief and bold, the proclamation has received very little attention. I therefore include it in my written testimony but would like to quote a few sentences from it.

This is what President Bush said: "In light of the importance of legitimate and transparent public institutions to world stability, peace, and development, and the serious negative effects that corruption of public institutions has on the United States efforts to promote security and to strengthen democratic institutions and free market systems..., I have determined that it is in the interests of the United States to take action to restrict the international travel and to suspend the entry into the United States, as immigrants or nonimmigrant, of certain persons who have committed, participated in, or are beneficiaries of corruption in the

performance of public functions where that corruption has serious adverse effects on international activity of U.S. businesses, U.S. foreign assistance goals, the security of the United States against transnational crime and terrorism, or the stability of democratic institutions and nations.”

The proclamation suspends visas for “Public officials or former public officials whose solicitation or acceptance of any article of monetary value, or other benefit, in exchange for any act or omission in the performance of their public functions has or had serious adverse effects on the national interests of the United States. For purposes of this proclamation, "serious adverse effects on the national interests of the United States" means serious adverse effects on the international economic activity of U.S. businesses, U.S. foreign assistance goals, the security of the United States against transnational crime and terrorism, or the stability of democratic institutions and nations.

Clearly, the Commander in Chief is fully aware of the connection between corruption on one hand and the security of the United States, and the threat to democracy and stability necessary for economic development on the other. One example of this nefarious connection is taking place today in Nicaragua, where supporters of disgraced former President Arnaldo Aleman, who is serving a sentence for stealing public funds, have allied with Sandinistas in the legislature in order to undermine the democratic government of President Bolanos. All we have to do is recall the carnage and damage that the Sandinistas inflicted on Central America to be on the alert for a possible success of this kind of terrorist-embezzler alliance.

I mentioned earlier that a new threat to democracy and development comes from populist demagogues who rail against corruption with the sole intention of attaining power and then cling to it by any means necessary. The US must continue to act aggressively against public officials or former public officials, as President Bush has said, whose misappropriation of public funds or interference with the judicial, electoral, or other public processes because of the serious adverse effect this has not solely in their societies but on the national interests of the United States.

In conclusion, let me say that it is unrealistic to think that the United States alone can stem the disease of corruption. But we certainly can take, and have taken, steps to prevent those guilty of it from enjoying their ill-gotten gains in the peace and tranquility of our country. Those who steal from their helpless compatriots and impoverish their countries should be denied safe haven in democratic countries and should be forced to live in the unstable and dangerous world they helped to create. By denying visas for entry into the US, we are attempting to do just that but our government must implement the President's policy more aggressively.

I urge other democracies to join this effort; I applaud this committee for shining a light on the devastating impact of corruption; and I commend my former boss, President Bush for taking concrete steps to combat it.

Thank you for the privilege of allowing me to testify.